

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Commission,) Application No. NUSF-1  
on its own motion, seeking to )  
establish guidelines for the ) PROGRESSION ORDER NO. 5  
administration of the Nebraska )  
Universal Service Fund. ) Entered: March 21, 2000

BY THE COMMISSION:

1. This Docket was opened on March 16, 1999, on the Commission's own motion, to establish guidelines for the administration of the Nebraska Universal Service Fund ("NUSF").

2. On September 13, 1997, Legislative Bill 686 (LB686) became law. LB686 created the Nebraska Statutes known as the Nebraska Telecommunications Universal Service Fund Act ("NUSF Act"). Among those statutes included in the NUSF Act are §86-1404(5), which reads, in part, as follows:

There should be specific, predictable, sufficient, and competitively neutral mechanisms to preserve and advance universal service. Funds for the support of high-cost service areas will be available only to the designated eligible telecommunications companies providing service to such areas.

and §86-1406, which reads as follows:

The commission shall determine the standards and procedures reasonable necessary, adopt and promulgate rules and regulations as reasonably required, and enter into such contracts with other agencies or private organizations or entities as may be reasonably necessary to efficiently develop, implement, and operate the fund.

3. By order dated January 13, 1999, in Application No. C-1628, the Commission allowed all incumbent local exchange carriers ("ILECs") a transitional period to reach the goals of the NUSF. Transition periods of three years for US West, Aliant d.b.a. ALLTEL, and GTE (collectively known as "non-rural ILECs") and four years for the remaining thirty-nine ILECs (collectively known as "rural ILECs") were adopted. During the transition periods, an ILEC's NUSF support is equal to the implicit support it has removed through reductions in access charges and basic local service rates, less any additional revenue due to increases to basic local service rates, any support received from the federal universal service fund to expressly offset intrastate implicit support, and any earnings in excess of the Commission determined rate of return level. NUSF support will be calculated during each year of the transition. Each ILEC is required to file a transition plan, which includes an annual tariff filing to be made on or before September 1, of each year during the

relevant transition period. Among other things, these tariff filings implement access rates reductions and local rates increases as set forth in the January 13, 1999, Commission C-1628 order.

#### O P I N I O N   A N D   F I N D I N G S

4. As part of its ongoing review of the NUSF, the Commission finds, in accordance with its responsibility under the NUSF Act to determine procedures necessary to efficiently operate the fund, it necessary to further refine the NUSF funding methodology. The Commission's refined methodology, which is detailed below, ensures NUSF funds are distributed, to ILECs in compliance with the law and Commission orders, in a fair, equitable, and sufficient manner. The NUSF allocation calculations will be performed at Commission determined intervals.

5. During the transition periods, the Commission finds that 1998 shall be defined as the base period demand year. Each ILEC's NUSF support amount shall be calculated by applying any changes made to access charges and basic local services rates against an ILEC's respective 1998 demand. In a like manner, the Commission finds that, prior to applying the Commission's refined NUSF funding methodology, any rate of return over earnings amount deducted from an ILEC's NUSF support amount will be stated in terms of 1998 dollars.

6. During the transition period, a non-rural ILEC's NUSF support amount will be paid on a per line, per exchange basis. All non-rural ILECs' NUSF support amounts will be allocated per line, per exchange, based on a weighting of the overall cost per line, calculated utilizing a Commission selected cost model, less any revenue received to offset the costs of providing local phone service, to arrive at residential NUSF support per line, per exchange, and single line business ("SLB") NUSF support per line, per exchange, amounts. The residential NUSF support per line, per exchange, and SLB NUSF support per line, per exchange, amounts will be multiplied by a non-rural ILEC's access line counts and summed to determine the total non-rural ILEC's NUSF support per line, per exchange, amount paid. An example of the Commission's methodology is displayed on Attachment A.

7. During the transition period, NUSF support amounts for rural ILECs shall be paid in a manner similar to the methodology used for non-rural ILECs. However, rural ILECs may elect to use either a per line, per exchange, or a per line, per company basis for the Commission's funding calculations. Once allocation basis election is made, such election can only be changed with Commission approval.

8. On a going-forward basis, beginning July 2000, the residential NUSF support per line amounts and SLB NUSF support per line amounts will be multiplied by access line counts, submitted on either a monthly or quarterly basis, as detailed below, for each ILEC, to determine monthly NUSF support amounts.

9. The Commission finds said methodology necessary to ensure sufficient historical NUSF support is brought forward, in a fair, equitable, and sufficient amount, to reflect the actual period in which the payment is being received. The costs incurred to provide NUSF supported services are predominately a function of non-traffic sensitive costs. Thus, the Commission finds it is more appropriate for the NUSF funding methodology to be based on per line growth.

10. A decrease to an ILEC's access lines can be due to any combination of four causes; 1) negative growth, 2) competition, 3) sale of lines, and 4) sale of exchange(s). A decrease in access lines, due to sales, eliminates the ILEC's cost of providing service for the lines sold and thus, the ILEC's need for subsidy to support the access lines sold. The NUSF support for the lines sold is no longer needed by the ILEC selling the lines, as the cost for those lines no longer exists for that ILEC. In much the same fashion as the sale of lines, a decrease in access lines due to the sale of exchange(s) eliminates the ILEC's need for NUSF support for the exchange(s) sold. However, a decrease to an ILEC's access lines, determined by exchange, due to negative growth does not eliminate any cost to the ILEC experiencing exchange level negative growth.

11. Therefore, the Commission finds that, pursuant to the sale of any ILEC's lines or exchange(s), the NUSF support received for the lines or exchange(s) sold will be shifted from the selling ILEC to the company purchasing said lines or exchange(s). The Commission also finds that a reduction to access lines due to negative growth shall not cause the NUSF support, for the exchange(s) experiencing negative growth, to decrease during the transition period defined for the ILEC. NUSF support amounts for ILECs experiencing a decrease in access lines due to negative growth will be the greater of the ILECs NUSF support amount, pursuant to C-1628, based on 1998 access line counts for that exchange, or the amount as calculated in paragraph 8 above. As a result, no ILEC will receive less than the base amount as set forth in the Commission's January 13, 1999, C-1628 Order, during the respective transition periods, except in instances when access lines or exchange(s) are sold.

12. In order to facilitate the Commission's funding methodology, each ILEC receiving NUSF support will be required to submit access line data in a format determined by the Commission. Initially, all ILECs shall submit to the Commission all residential and SLB access line counts, by exchange, for the calendar 1998 base period demand year and calendar 1999, by April 15, 2000.

13. Beginning April 15, 2000, all non-rural ILECs will be required to submit to the Commission residential and SLB access line counts, by exchange, on a monthly basis. Each month's data will be due the 15<sup>th</sup> of the second month following the data period.

14. Beginning April 15, 2000, all rural ILECs will be

required to submit to the Commission residential and SLB access line counts, pursuant to individual company election, either by exchange or by company, on either a monthly or quarterly basis. Quarterly data will follow the NUSF Fiscal Year, July 1 - June 30, and will be due on the 15<sup>th</sup> of the second month following the end of the three-month data period. Monthly data will be due the 15<sup>th</sup> of the second month following the data period. Once reporting period election is made, such election can only be changed with Commission approval.

15. All ILECs are required to submit their first data remittance by April 15, 2000. Those required or selecting monthly data periods will remit February access line counts for residential and SLB. Those selecting quarterly data periods will remit October 1999 through December 1999 access line counts for residential and SLB. Subsequent access line data shall be filed with the Commission as outlined above.

16. In addition to submitting paper copies of access line data, the Commission requires that each ILEC filing monthly access line counts, either by election or requirement, also file electronic copies on disk. The electronic copies shall be filed in Lotus 1-2-3 format. Each record will contain, in exact order: 1) Exchange Name, 2) Exchange Full CLLI Code, 3) Residential Access Line Count, and 4) SLB Access Line Count.

17. In response to correspondence received from the Nebraska Auditor of Public Accounts and in order to ensure the accuracy of all information provided to the Commission for the facilitation of NUSF payments, the Commission requires that all ILECs shall have a third party perform, and attest to the validity of, an audit of all information provided to the Commission for the purposes of determining NUSF support payments.

18. The Commission does not, at this time, prescribe a specific time frame in which NUSF third party audits must be submitted. In an effort to minimize regulatory burden, the Commission will allow those ILECs who perform annual audits to perform the NUSF third party audit in tandem with their annual audit. Results of each annual NUSF third party audit shall be provided to the Commission by the end of the following year. Additionally, the Commission requires all ILECs who perform annual audits to submit NUSF third party audit results for calendar year 1998 on or before December 31, 2000.

19. In the event an ILEC does not perform an annual audit, the Commission requires said ILEC to perform an NUSF third party audit once per three-year period. Results of each tri-annual NUSF third party audit shall be provided to the Commission by the end of each year, evenly divisible by three. Therefore, the Commission requires all ILECS who do not perform annual audits to submit the results of the initial NUSF third party audit for calendar years 1998, 1999, and 2000, on or before December 31, 2001.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that all ILECs shall comply with the reporting requirements as outlined above.

IT IS FURTHER ORDERED by the Nebraska Public Service Commission that all ILECs shall comply with the auditing requirements as outlined above.

IT IS FURTHER ORDERED by the Nebraska Public Service Commission that, for the purposes of NUSF administration, Lotus 1-2-3 is a Commission required format.

MADE AND ENTERED at Lincoln, Nebraska, this 21<sup>st</sup> day of March, 2000.

NEBRASKA PUBLIC SERVICE COMMISSION:

COMMISSIONERS CONCURRING:

Chairman

ATTEST:

Executive Director

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